

STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339  
Honolulu, Hawaii 96809-0339

February 27, 2015

**Memorandum**

TO: The Honorable Sylvia Luke, Chair  
House Committee on Finance

FROM: Rachael Wong, DrPH, Director

SUBJECT: **H.B. 581 HD 1 - RELATING TO THE HOSPITAL  
SUSTAINABILITY PROGRAM**

Hearing: Friday, February 27, 2015; 11:00 a.m.  
Conference Room 308, State Capitol

**PURPOSE:** The purpose of the bill is to continue the Hospital Sustainability Program, established by Act 217, Session Laws of Hawaii 2012, as amended by Act 141, Session Laws of Hawaii 2013, and Act 123, Session Laws of Hawaii 2014, by extending the sunset date of the Act to June 30, 2016, updating the referral dates in the statute, and revising the funding amount of the Hospital Sustainability Program Special Fund for fiscal year 2015-2016.

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) provides comments on this measure to extend the Hospital Sustainability Program for another year. Continuing the Hospital Sustainability Program will benefit Hawaii residents by having more sustainable hospitals and increased access to necessary medical care. DHS informs the committee that DHS continues to discuss further amendments with the Healthcare Association of Hawaii and the Centers for Medicare and Medicaid Services.

In reviewing H.B 581 HD 1 the recommended language proposed by the Department of Attorney General was accepted. However we respectfully request the following technical amendments to correct cross references to other section numbers in the bill resulting from adding SECTION 3:

- SECTION 8, (page 15, line 14), "section 5" should be changed to "section 6";
- SECTION 8, (page 15, line 16), "sections 3 and 4" should read "sections 4 and 5".

The appropriation of \$50 million in Section 6 of the bill, which does not require any appropriation from general funds, will ensure that Hawaii is able to match the maximum amount allowed under federal regulations, with federal funds, to benefit Hawaii's hospitals statewide.

The DHS is in active discussion with the Healthcare Association of Hawaii on proposed amendments related to supplemental uncompensated care and upper payment limit language and we are optimistic that agreement on language to include in the bill will be reached shortly.

The hospital sustainability program fees levied on non-governmental hospitals are used to leverage federal funds and increase reimbursement to hospitals, with a greater benefit to those providing proportionately more services to Medicaid recipients and the uninsured. These additional moneys will increase the sustainability of hospitals in Hawaii to continue as a critical part of the health care safety net.

In fiscal year 2012-2013, the hospitals were assessed \$40,103,774 in sustainability fees and received \$77,468,401 in additional reimbursements and in fiscal year 2013-2014 hospitals were assessed \$44,490,855 in sustainability fees and received additional reimbursements of \$81,309,367. In fiscal year 2014-2015 it is anticipated that the hospitals will be assessed \$46,621,994 in sustainability fees and estimated to receive additional reimbursements of \$84,687,653.

Additionally, 12% of the revenues from the fees collected are to be used by the DHS for administrative expenses and to increase and improve services for Medicaid program recipients. The entirety of the 12% that DHS retains of the fees collected are paid out as follows: \$2,016,000 goes back to hospitals to restore a 3% reduction implemented in 2008 due to the downturn in the State's economy, \$1,000,000 "replaces" \$1,500,000 that the Legislature removed from HMS902 during the Lingle Administration and has not been restored, \$39,357 for services of a pharmacist, dentist and psychiatrist, and \$1,376,660 for additional behavioral health services for the seriously mentally ill. Additional general funds are required to pay the balance of the 3% reduction.

This bill proposes to also continue exempting the Hospital Sustainability Program Special Fund from the central service expenses assessed under section 36-27, HRS, and the administrative expenses assessed under section 36-30, HRS. This exemption will ensure that all moneys received in fees will only be used to increase the sustainability of hospitals in Hawaii and to benefit Medicaid program recipients.

Without these two exemptions from the departmental administrative expenses and central services expenses assessments, the Hospital Sustainability program would have to pay a \$2,500,000 in central services and \$500,000 in department administrative services assessments. This is a total of \$3,000,000 which the Department would not be able to use to sustain hospitals and improve services to Medicaid recipients. In paying these expenses, \$3,000,000 in matching federal funds that otherwise would have been paid to the hospitals would not be received and enter our economy. What would be a \$3,000,000 gain for the State would be a \$6,000,000 loss for the hospitals without the exemption.

Thank you for the opportunity to testify on this bill



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**Friday, February 27, 2015 – 11 a.m.**  
**Conference Room #308**

**House Committee on Finance**

To: Rep. Sylvia Luke, Chair  
Rep. Scott Nishimoto, Vice Chair

From: George Greene  
President & CEO  
Healthcare Association of Hawaii

Re: **Testimony in Strong Support**  
**HB581 HD1 — Relating to the Hospital Sustainability Program**

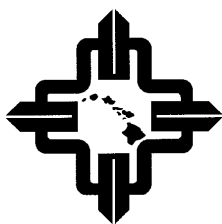
The Healthcare Association of Hawaii (HAH) is a 160 member organization that includes all of the acute care hospitals in Hawaii, the majority of long term care facilities, all the Medicare-certified home health agencies, all hospice programs, as well as other healthcare organizations including durable medical equipment, air and ground ambulance, blood bank and respiratory therapy. In addition to providing quality care to all of Hawaii's residents, our members contribute significantly to Hawaii's economy by employing over 20,000 people statewide.

Thank you for the opportunity to testify in **strong support** of HB581, which makes adjustments to the Hospital Sustainability Program and extends its sunset date to June 30, 2016.

Recognizing that Medicaid payments to hospitals were far below the actual costs of care, the Legislature created the Hospital Sustainability Program by enacting Act 217, SLH 2012, which increases Medicaid payments to hospitals. The program achieves this by assessing a fee on hospitals, using the revenue to obtain matching federal Medicaid funds, and returning a majority of the combined amount directly to hospitals.

Specifically, non-government hospitals are assessed an annual fee based on their patient revenues. Payment is based on the amount of a hospital's uncompensated care, which consists of nonpayment by uninsured patients and underpayment by Medicaid. Although the fees and payments are different for every hospital, the overall goal of the program is being achieved. Medicaid payments to many facilities are now closer to the actual costs of care, thereby reducing their losses and improving their financial stability. As such, the Hospital Sustainability Program ensures that Medicaid patients will continue to have access to the hospital care that they need. It is important to note that the program generates revenue for the state and its healthcare facilities without any state funding.

Thank you for the opportunity to testify in strong support of HB 581 HD1.



**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Quality Healthcare For All"*

**House Committee on Finance  
Representative Sylvia Luke, Chair  
Representative Scott Y. Nishimoto, Vice Chair**

February 27, 2015  
Conference Room 308  
11:00 a.m.  
Hawaii State Capitol

**Testimony Supporting House Bill 581, HD1, Relating to the Hospital Sustainability Program**  
**Continues the Hospital Sustainability Program by extending its sunset date to June 30, 2016, updating the referral dates in the statute, and revising the funding amount for the Hospital Sustainability Program for fiscal year 2015-2016.**

Linda Rosen, M.D., M.P.H.  
Chief Executive Officer  
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony in strong support of HB 581, HD1, that continues the Hospital Sustainability Program.

Given that health care provider reimbursements are declining at both the federal and state level, it is imperative that health care providers find innovative ways to generate revenues to offset the decline in reimbursements. We believe that the concept of a provider fee on health care items or services provided by nursing facilities is a good financing mechanism that leverages federal funds to increase the reimbursements to hospitals from the MedQUEST programs.

As is common in other states that have implemented sustainability fee programs, the public hospitals of the Hawaii Health Systems Corporation are being exempted from the hospital sustainability program. This is being done to maximize both the amount of federal funds that the private hospitals will receive through the hospital sustainability fee program and the amount of federal matching funds the public hospitals can receive under the State of Hawaii's Section 1115 waiver. As a matter of public policy, the public hospitals should be allowed to utilize their certified public expenditures to the maximum extent possible for their exclusive benefit as a means of continuing financing for their operating deficits. In this way, the greatest amount of federal funds may be realized

and the private hospitals and the public hospitals as a whole will receive greater reimbursements than they are currently receiving.

Thank you for the opportunity to testify before this committee. We would respectfully recommend the Committee's support of this measure.



**House Committee on Finance**

The Hon. Sylvia Luke, Chair

The Hon. Scott Y. Nishimoto, Vice Chair

**Testimony on House Bill 581 HD 1**  
**Relating to the Hospital Sustainability Program**  
**Submitted by Nani Medeiros, Public Affairs and Policy Director**  
**February 27, 2015, 11:00 am, Room 308**

The Hawaii Primary Care Association supports HB 581, which makes adjustments to the Hospital Sustainability Program and extends its sunset date to June 30, 2016.

Recognizing that Medicaid payments to hospitals were far below the actual costs of care, the Legislature created the Hospital Sustainability Program by enacting Act 217, SLH 2012, which increases Medicaid payments to hospitals. The program achieves this by assessing a fee on hospitals, using the revenue to obtain matching federal Medicaid funds, and returning a majority of the combined amount directly to hospitals. Payment is based on the amount of a hospital's uncompensated care, which consists of nonpayment by uninsured patients and underpayment by Medicaid.

Thank you for the opportunity to testify.



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the House Committee on Finance  
Friday, February 27, 2015 at 11:00 A.M.  
Conference Room 308, State Capitol**

**RE: HOUSE BILL 581 HD1 RELATING TO THE HOSPITAL SUSTAINABILITY  
PROGRAM**

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** HB 581 HD1, which continues the Hospital Sustainability Program for one year and appropriates funds out of the Hospital Sustainability Program Special Fund for fiscal year 2015-2016.

The Chamber is the largest business organization in Hawaii, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This bill helps the state and Hawaii hospitals utilize this program to leverage much needed federal dollars. A sustainable hospital network and health care industry is vital to the health of our employees, business, and our overall quality of life.

Thank you for the opportunity to testify.





## THE QUEEN'S HEALTH SYSTEMS

To: Chair Sylvia Luke  
Vice Chair Scott Y. Nishimoto  
House Committee on Finance

From: Paula Yoshioka  
Senior Vice President  
The Queen's Health Systems

Re: HB 581 HD1, Relating to the Hospital Sustainability Program  
Hearing—February 27, 2015 at 11:00 AM

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The Queen's Health Systems would like to express strong support for HB 581 HD 1, a bill relating to the Hospital Sustainability Program. This bill would reauthorize the Hospital Sustainability Program for an additional year.

The Hospital Sustainability Program issues a fee on hospital providers in the state of Hawaii, including QHS. The revenue generated by this fee is used by the state to draw down matching federal funds. For the last several years, as hospitals have faced declining federal payments for providing care to the un- or underinsured patients, the Hospital Sustainability Program has allowed the state to support the provision of uncompensated care.

In 2012, QHS provided approximately \$91 million in uncompensated and charity care. The Hospital Sustainability Program helped QHS offset a portion of those costs. We are looking forward to joining our hospital partners at HAH in supporting the fair distribution of funds generated through this program.

We ask that you support the continuation of this the Hospital Sustainability Program. Your favorable vote on this bill will allow collaborative efforts between the Hawaii Department of Human Services, Queen's, and the Healthcare Association of Hawaii to ensure access to safety net services for residents across the state to continue.

*The mission of The Queen's Health Systems is to fulfill the intent of Queen Emma and King Kamehameha IV to provide in perpetuity quality health care services to improve the well-being of Native Hawaiians and all of the people of Hawai'i.*